

Recent Trends in Retail Trade

CONSIDERABLE attention has been given in recent weeks to the signs of slackening in retail activity. Reduced buying both in durable- and nondurable-goods stores and an Easter season which apparently did not measure up to merchandisers' expectations have been attended by a marked increase in inventories. The decline in sales to March from the all-time peak in January cancelled half of the 15 percent increase on a seasonally adjusted basis from November to January.

Among the reasons advanced for this easing, a few seem to be of major significance. First, buying waves of the intensity of that touched off in June by the invasion of South Korea, and again late in 1950 by the Chinese intervention, are necessarily of short duration. Second, the imposition of price controls has tempered one of the principal incentives for anticipatory purchasing—rapidly rising prices. Other factors include the substantial reduction in the backlog of demand for durable goods as a result of continued high production, the existence of credit restrictions keeping some potential buyers out of the stores, and the first signs of curtailment of residential construction with its impact on furniture and appliance demand.

There is little likelihood, however, of any sustained diminution in retail sales arising from the demand side, in view of the scale of mobilization expenditures already in progress or in prospect. Within the next year, the rate of Government outlays for military and related goods is scheduled to rise to twice the \$25 billion rate achieved in the first quarter of 1951. Expenditures for plant and equipment are also expected by businessmen to advance appreciably, as pointed out in last month's *SURVEY OF CURRENT BUSINESS*.

These factors, while diverting resources from consumer goods output, at the same time insure a substantial increase in personal income over present rates, and even with a marked step-up in income taxes, disposable income will also move upward. Consequently, apart from short-run fluctuations, demand pressures in the foreseeable future are likely to grow.

In this situation, it is the supply picture which will largely determine the character of retail activity in this period. For durable goods, the limitation orders already in force and in prospect on the use of critical materials for civilian goods will begin to have a pronounced effect on output of some items by the middle of 1951. The effect will increase, although it will not reach anything like the proportions required during World War II unless international developments should necessitate an intensification of the defense effort.

In the longer range, of course, the presently scheduled expansions of productive capacity may later permit relaxation of the curtailment of consumer durables even during the continuation of the defense program.

The reduced availability of durables in the short run should add to the effect of rising income in aiding the demand for nondurable goods. Prospective limitations on the supply of nondurables for civilian consumption do not appear important in general.

In sum, therefore, the over-all demand-supply situation will continue to be dominated by inflationary pressures during the period of partial mobilization which lies ahead, although this does not preclude the appearance of brief let-ups in such pressures, which may call for alert merchandising to keep many lines moving at high volumes.

Present Position of Retail Sales

The subsidence in the past few months of the second post-Korean buying wave has received far more attention than was occasioned by the let-up last autumn following the summer flurry. This cannot be explained by the amount of the decline, for March dollar sales were down only 7 percent from the all-time high on a seasonally adjusted basis recorded 2 months earlier, and the March total was higher than in any month prior to the Korean developments. Moreover, such fragmentary data as are available for April indicate no further decline from March.

An evident reason for the difference in reaction lies in the condition of retail inventories, which have continued to grow despite the high rate of sales in January and February. The increase in book value to the end of March, amounting to more than \$4 billion since last July, has occurred in durable as well as nondurable items and reflected higher volume as well as higher costs. This rise in inventories as sales lagged was largely responsible for recent declines in orders placed with manufacturers for consumer goods.

The practice of using year-to-year comparisons may also have played its part in attracting greater attention to the more recent abatement in buying. Physical volume this March was no higher than the corresponding month of 1950. Last fall, in contrast, there were gains in unit sales over year-ago figures.

The effect of price increases in the recent movement of monthly sales is eliminated in the following table, which gives in index form (June 1950=100) the physical volume of seasonally adjusted retail sales over the 9 months from July 1950 to March 1951, compared with the pre-Korea peak month:

1950						1951		
July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
107.0	106.4	100.9	97.1	93.5	98.4	106.3	102.2	95.9

It may be noted that the price change during the 9 months more than accounted for the increase in dollar sales over the period, so that physical volume in March was somewhat below the previous June. However, it was higher than just before the year-end spurt in sales.

It is also possible that an Easter season which fell below the expectations of some merchandisers more than offset their satisfaction with a post-Christmas period that did not show the normal degree of slackness.

Factors adversely affecting demand for durables

A number of factors have been cited as indicative of a potential decline in demand, primarily for durable goods. Various detailed analyses, while not completely conclusive, have pointed to the satiation of the bulk of the war-induced

backlog demand for autos and the virtually complete elimination of that for major appliances.

Although a substantial excess of over-age autos remains in use, the deficiency of younger-age cars which has characterized the entire postwar period has finally been wiped out. This may explain in part the reduction in intentions to buy autos in 1951 as compared with 1950, reported in the Sixth Annual Survey of Consumer Finances recently completed by the Board of Governors of the Federal Reserve System.

Another element which may affect durable goods purchasing is the existence of the credit restrictions imposed last fall. Installment credit outstanding on the sale of automobiles, which had increased more than a third in the first 10 months of 1950, has subsequently been reduced somewhat as new credit granted since the reinstitution of Regulation W has fallen short of repayments on existing indebtedness. While the credit restrictions did not forestall heavy purchasing of durables at the turn of the year, and while only a small percent of those interviewed in the Survey of Consumer Finances just mentioned expected to have their outlays affected by the restrictions, clearly the requirements for minimum down payments and maximum repayment period will eliminate some potential purchasers.

Less directly, if a decline in residential construction occurs, it may eliminate some demand which might otherwise be created for furniture and major appliances. The absence of the normal seasonal rise in housing starts this March may presage such a decline.

Income principal determinant of demand

As pointed out in the introduction, however, such a recital of factors overlooks the major element in determining demand—the level of disposable income. With Government purchases of goods for defense purposes scheduled to increase \$25 billion within a year, and with businessmen planning to invest in new plant and equipment \$5 billion more in 1951 than they did in 1950, an increase in personal income is indicated which is very unlikely to be offset completely by higher taxes.

Consequently, the significance of the factors just cited does not lie in their implications for the demand for consumer durables in the near future—within a short time, restrictions on production will make supply the principal limitation on retail sales of durables. More important than any short-run implication is the suggestion that when increased productive capacity permits a greater supply of consumer durables, sales in relation to income may well be somewhat lower than in the past 2 years. Of course, a new backlog demand could be created in the interim.

Retail sales close to peak

Before reviewing the historical patterns of retail activity in relation to income for the light they throw on these considerations, it may be useful to see how sales stand by comparison with the earlier postwar years. Chart 1 emphasizes the extent of the increase in purchasing at retail in the past 9 months. Although much of this increase represents price rises as pointed out earlier, there was also a substantial advance in physical volume, with the year 1950 about 8 percent above 1949, and the first quarter 1951 up a little further.

Although the trend within this quarter has been downward, clearly retail sales currently can be called low only by comparison with the excessive buying which came a few months earlier. In fact, dollar sales in March of this year were surpassed only in the 4 months of heaviest purchasing: July-August 1950 and January-February 1951.

While many of the lines of trade also were near their postwar quarterly highs, this was by no means true for all groups.

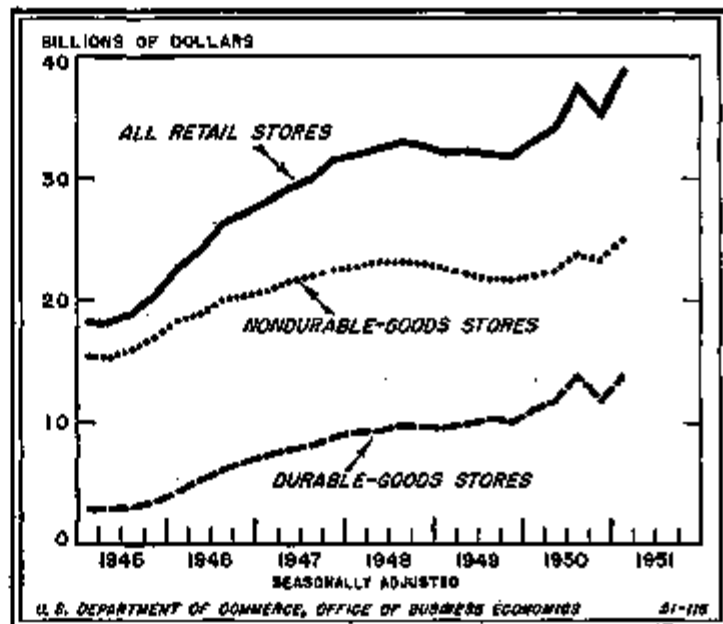
Chart 2 gives some notion of the disparity in the current situation among the different kinds of business.

Generally speaking, the durable-goods groups in the first quarter of 1951 registered sales about on a par with those 2 quarters earlier and were well above any other postwar quarter. The sole exception among the major lines of trade was jewelry, which had recovered only half of its slide between 1946 and 1949.

Food sales continue higher

Among the non-durable-goods establishments, the food group has contributed importantly to the post-Korean rise. Dollar sales of food stores have about kept pace with rising food prices, and neither these price advances nor higher outlays for durables have led to any decline in the quantity of food purchased at retail.

Chart 1.—Sales of Retail Stores



Source of data: U. S. Department of Commerce, Office of Business Economics.

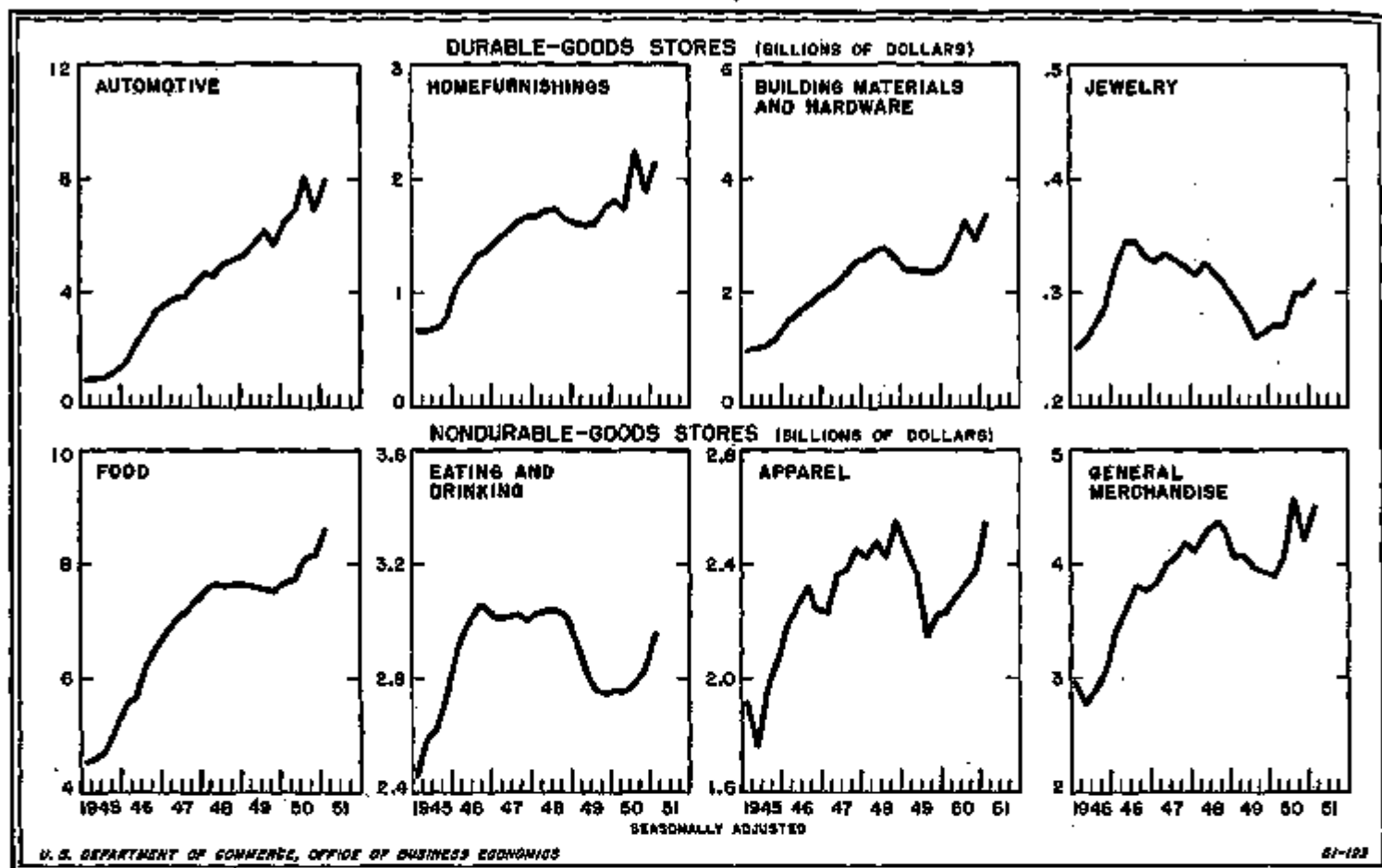
Sales of apparel stores in the first quarter of 1951 did not quite reach the previous peak quarter at the end of 1949; however, on a seasonally adjusted basis, sales this January were the highest ever recorded. Eating and drinking places also have reported a sharp gain in the first quarter which still leaves their sales somewhat below earlier highs.

Durables fluctuate more after Korea

An interesting difference may be observed in chart 2 between the durable-goods groups and the nondurables. The pattern of a high third quarter, followed by a dip—usually fairly steep—and another rise in the early months of this year is common to all of the durable-goods lines. It is absent from the nondurable-goods stores, except for the general merchandise group and also for filling stations (not shown in the chart). In the two exceptional groups, it was apparently sales of durable items—for example, home-furnishings in the first case, auto accessories and tires in the other—which accounted for the resemblance to the movements of the durable stores.

The disparate behavior of hard and soft goods underlines the problem of attempting to appraise the impact of the factors affecting demand. In explaining why sales of durable-goods stores in the fourth quarter were so much below the previous quarter, the anticipatory buying, Regulation W, and the general improvement in Korea might all

Chart 2.—Sales of Retail Stores by Selected Kinds of Business



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

61-123

Source of data: U. S. Department of Commerce, Office of Business Economics.

be cited. Only the last of these had a markedly changed effect by the first quarter of 1951, which suggests that the increase in buying in that period was tied to psychological as well as economic factors.

Historical Comparison

The primary characteristic of retail sales during almost the entire postwar period has been the unprecedented spending by consumers for durable goods.¹ In the period immediately after the war's end, the demand for durables was in excess of that indicated by normal cyclical factors because of their unavailability during the war. It took several years before production could rise enough to satisfy current demand and begin to work off the backlog.

The unusual extent of durable goods purchases since 1945 can best be appraised by comparison over time. (See chart 3.) The portion of the consumer's dollar spent at durable-goods stores has been rising almost without interruption since then. During 1950 the ratio of retail sales at durable-goods stores to disposable personal income averaged 24 percent in the 1929-41.

The principal component in the rising importance of durables has been the heavy expenditures for automobiles. Sales in the automotive group in 1950 accounted for about 14 percent of income, compared with a top value of 9 percent in the earlier years (table 1).

The relative position of durables other than autos has also improved, though not to the same extent. Even at jewelry stores, where sales had been moving generally downward

from 1946 until the latter part of 1949, the ratio of sales to income did not fall below the prewar high points.

Nondurable share of income declines

With durable goods not readily available in 1946 and 1947, nondurable-goods stores increased their share of consumer income to more than 51 percent. In the years prior to 1941 the proportion had ranged between 42 and 45 percent.

Since 1947 the ratio for nondurables has been declining. It reached 45 percent in 1950, a value fairly close to the proportion characteristic of the thirties, although still above 1929 or 1941.

For most of the nondurable-goods groups the 1950 ratio of sales to income was slightly below the figure shown in the years immediately prior to the war. The food group, however, still accounts for a higher proportion of income than in the thirties despite a slow decline in relative position since 1947.²

The appraisal of these changes in the ratio of retail store sales to consumer income is somewhat complicated by cyclical and secular shifts in the proportions of income spent for various commodities. In attempting to allow for fluctuations in the ratio which are tied to variations in the level of income, use may be made of the correlation of dollar sales with disposable income.³

Chart 4 shows the linear regressions of sales of durable and nondurable-goods stores on disposable income over the period 1929-40. The nature of these regressions, based on a single major cycle, implies that the ratio of nondurable-

¹ For a discussion of the reasons for these changes in pattern, see "Retail Sales and Consumer Income," *Survey of Current Business*, October 1948.

² The differences in the assumptions underlying the ratio and correlation analyses and the limitations in their use were discussed in the article previously cited.

³ There are essential differences between retail sales discussed here and consumption expenditures for goods. Some part of retail sales does not represent consumption expenditures and a portion of these expenditures are not made at retail outlets. Nevertheless, total sales and total consumption expenditures for goods are highly correlated and show similar movements.

goods sales to income remains fairly constant, while for durables the ratio increases with income.

The higher income of the postwar years as compared with the prewar period does not appear sufficient to account completely for the amount of retail spending on durables in the past year or so, if the relationship is in fact the appropriate norm for the present time. More detailed studies of consumer durables have indicated that the carryover of demand from the war period and the high rate of residential construction are the most significant of the factors omitted from the relationship in explaining the exceptional amount of spending for durable goods.¹ However, the 2 quarters which most definitely depart from the line of regression are those characterized most clearly by excessive buying due to the Korean developments.

In contrast, sales at establishments retailing nondurable goods have returned steadily toward the historical pattern in the years since 1947. Here again the third quarter of 1950 and the first quarter of this year lie further above the line of regression than the other quarters of 1950. It has already been noted that some part of this excess buying can be attributed to sales of durable goods at establishments classified in the nondurable group.

In concluding this discussion of the historical relation of retail sales to disposable income, it should be remarked that

the correlation analysis seems to yield a more successful extrapolation to the postwar years than does the ratio analysis. While sales of the durable-goods group are shown by both approaches to be higher relative to income than in the prewar years, the regression line gives a smaller and more plausible degree of excessive buying in 1950. In the case of nondurable goods, the correlation and ratio approaches give almost identical results.²

Current period similar to 1940-41

In order to obtain a clearer picture of the nature of consumer buying patterns in recent months, it is of value to seek a period in the past comparable to the present, at least in some important respects.

The period beginning with July 1950 has seen a movement toward partial mobilization. In the wake of Korea, prices have been increasing, demands for defense have begun to limit the use of critical materials for civilian requirements, and some measure of control has been instituted over prices, wages, credit, and production.

Such a period has much in common with the years 1940-41. Early in 1940 only the export demand for war materials competed to any extent with civilian requirements. After the invasion of the Lowlands and France in May 1940,

¹ See "Postwar Furniture Market and the Factors Determining Demand," *SURVEY OF CURRENT BUSINESS*, May 1950, and "The Demand for Consumers' Durable Goods," *SURVEY OF CURRENT BUSINESS*, June 1950.

² The relationships to income of consumption expenditures for durable goods and for nondurable goods differ from the corresponding relationships of retail sales because of significant differences in coverage of the aggregates and in the relative weights of the components. It may also be noted that no account has been taken of services, which are relevant to consumption expenditures rather than to retail activity.

Table 1.—Retail Store Sales as a Percentage of Disposable Personal Income

Kind of business	1929	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1950				1951, First quarter
														First quarter	Second quarter	Third quarter	Fourth quarter	
All retail stores.....	53.7	59.9	61.2	60.3	49.4	47.3	40.6	56.2	61.1	70.3	65.0	58.4	69.2	67.0	59.8	72.3	66.8	72.1
Durable-goods stores.....	17.3	14.8	16.4	17.0	8.8	7.4	7.2	8.1	14.2	19.0	20.2	21.3	24.0	22.4	24.0	27.0	22.6	25.6
Automotive group.....	3.5	2.9	0.1	0.3	2.8	2.4	2.4	2.7	0.1	0.3	10.8	12.1	11.0	13.1	14.1	15.7	13.0	14.8
Motor vehicle dealers.....	7.8	7.2	8.3	8.5	2.2	1.9	1.8	2.0	0.0	0.3	0.3	11.2	12.0	12.2	13.1	14.4	11.0	13.4
Parts and accessories.....	.7	.7	.8	.8	.0	.0	.0	.7	1.0	1.0	.0	.0	1.0	.0	1.0	1.2	1.0	1.0
Building materials and hardware group.....	4.7	2.9	4.1	4.3	3.3	2.0	2.5	3.8	4.2	6.4	5.7	6.1	5.7	5.8	6.0	4.3	5.5	6.3
Building materials.....	3.2	2.5	2.0	2.0	2.0	1.0	1.5	1.7	2.6	3.4	3.0	3.2	3.8	3.4	4.0	4.2	3.0	4.1
Farm implements.....	.6	.6	.6	.6	.4	.3	.4	.4	.6	.7	.8	.7	.8	.7	.8	.9	.7	.8
Hardware.....	.0	.0	.0	.0	.8	.7	.7	.8	1.1	1.3	1.2	1.1	1.1	1.0	1.1	1.3	1.1	1.3
Home-furnishing group.....	2.3	2.0	2.7	2.8	2.1	1.7	1.7	1.9	3.1	3.7	3.0	3.6	3.6	3.7	3.6	4.4	3.6	4.0
Furniture and house-furnishings.....	2.2	1.7	1.8	1.8	1.8	1.3	1.3	1.4	2.0	2.2	2.1	2.0	2.0	2.0	2.0	2.2	1.9	2.1
Household appliances and radios.....	1.1	.8	.8	.8	.6	.4	.3	.4	1.1	1.5	1.4	1.5	1.7	1.6	1.6	2.1	1.9	1.8
Jewelry.....	.6	.6	.0	.6	.0	.7	.7	.7	.8	.8	.7	.6	.6	.5	.6	.6	.8	.6
Nondurable-goods stores.....	41.6	45.1	44.8	43.3	40.6	40.4	33.6	42.9	46.9	51.2	45.1	47.1	45.2	44.7	45.7	46.4	44.2	46.6
Apparel group.....	5.1	4.0	4.6	4.5	4.4	4.3	4.7	5.1	6.7	5.6	5.2	4.8	4.6	4.5	4.7	4.0	4.3	4.7
Men's clothing and furnishings.....	1.0	1.2	1.3	1.2	1.1	1.1	1.1	1.2	1.4	1.4	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.2
Women's apparel and accessories.....	1.8	1.9	1.9	1.8	1.9	2.2	2.2	2.4	2.6	2.4	2.4	2.2	2.1	2.0	2.1	2.1	2.1	2.1
Family and other apparel.....	.7	.7	.7	.7	.8	.7	.7	.7	.8	.8	.7	.7	.6	.6	.7	.6	.6	.7
Shoes.....	1.6	1.0	.8	.8	.8	.8	.7	.8	.9	.9	.8	.8	.7	.8	.8	.8	.7	.9
Drug stores.....	2.0	2.2	2.2	2.0	1.9	2.0	1.9	2.0	2.3	2.2	2.0	1.9	1.8	1.9	1.9	1.9	1.7	1.8
Eating and drinking places.....	2.0	5.0	6.1	5.2	6.3	5.9	6.2	6.9	7.5	7.1	6.4	6.0	5.5	5.0	5.6	5.4	5.3	5.5
Food group.....	13.3	14.5	14.4	13.7	13.2	12.7	12.2	12.5	14.1	16.7	16.2	16.2	15.6	15.5	15.8	15.0	15.4	16.0
Grocery and combination.....	8.9	11.0	11.0	10.4	10.1	9.6	9.3	9.5	11.6	13.2	12.8	12.9	12.6	12.4	12.8	12.9	12.4	12.0
Other food.....	4.4	2.5	3.4	3.2	3.1	3.1	2.9	3.0	2.5	3.5	3.4	3.3	3.1	3.1	3.1	3.1	3.0	2.1
Filling stations.....	2.2	4.0	2.9	3.8	2.6	1.9	1.8	2.0	2.6	3.1	2.4	2.4	2.3	2.3	2.3	2.4	2.3	2.9
General merchandise group.....	10.9	8.2	9.0	8.6	7.7	7.6	7.4	7.7	9.2	9.5	9.0	8.5	8.3	7.9	8.3	9.0	8.0	8.4
Department (excluding mail order).....	4.7	5.0	5.0	4.6	4.2	4.2	4.2	4.5	5.6	5.6	5.2	5.1	4.9	4.7	5.0	5.5	4.7	5.0
Mail order.....	.5	.7	.8	.7	.5	.4	.4	.4	.6	.7	.7	.6	.6	.5	.6	.7	.5	.9
General, including general merchandise with food.....	3.3	1.3	1.2	1.1	1.0	1.0	.9	.8	1.1	1.1	1.0	.9	.9	.8	.9	.9	.8	.9
Dry goods and other general merchandise.....	1.3	.6	.8	.8	.8	.8	.8	.8	.9	.9	.9	.8	.8	.7	.8	.8	.8	.8
Variety.....	2.1	1.4	1.4	2.3	1.2	1.1	1.0	1.1	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1
Other retail stores.....	5.4	5.8	5.7	5.6	5.5	5.7	5.5	5.8	6.6	7.1	6.6	6.2	6.1	6.0	6.1	6.4	6.0	6.4
Liquor.....	.9	.8	.8	.8	.9	.9	1.0	1.1	1.2	1.1	1.0	.9	.9	.9	.9	.9	.9	.9
All other.....	5.4	4.7	4.8	4.8	4.6	4.7	4.5	4.7	6.4	6.0	5.7	5.3	5.2	5.1	5.2	5.5	5.1	5.5

Source: U. S. Department of Commerce, Office of Business Economics.

however, the Nation's defense program began to take shape. By October of that year the first peacetime draft had been approved and partial mobilization was well under way.

In the fall of the year shortages of critical materials led to the setting up of a priority system. As mobilization was stepped up and shortages became more acute, direct controls on the volume of civilian goods were instituted early in 1941 under the Office of Production Management. Manufacturers were ordered to limit their production of certain types of civilian goods.

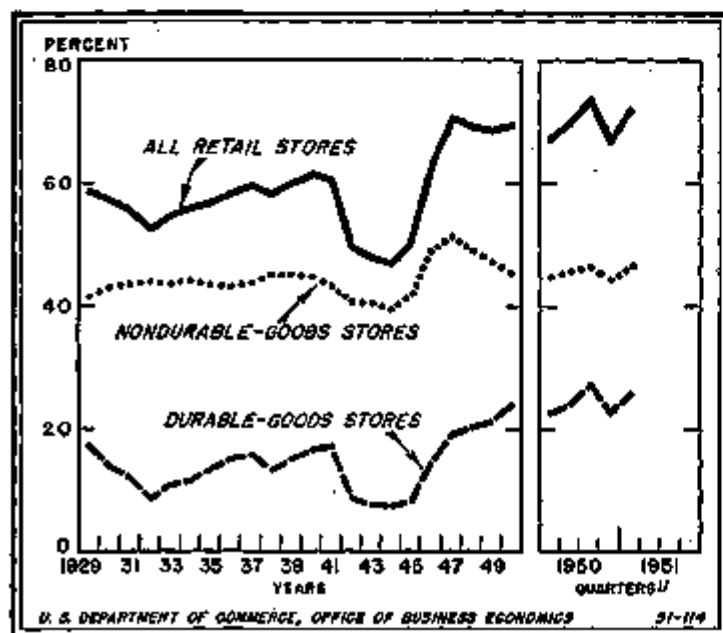
By the end of 1940 it was already apparent that cutbacks in production of important consumer durables were imminent. Manufacturers rushed to produce as much as possible before limitations were imposed, and consumers similarly hurried to buy.

Motor vehicle sales began moving upward rapidly in the fourth quarter of 1940 and by the first quarter of 1941 had advanced more than 40 percent. Through the first half of 1941 sales remained high, absorbing all that the industry produced. Reflecting the sharpened demand for major appliances, home furnishings store sales also began their upward climb in the latter half of 1940 and continued into 1941. In the nondurable-goods groups steady gains were also shown but these were largely the effect of price rises.

Such developments as the mounting intensity of materials shortages and price increases, the elimination of silk imports, and the new credit regulations and excise taxes scheduled for September, all combined to cause an upsurge in anticipatory buying that culminated in a peak in August. The only store group that showed no August response was the automotive category. Here, as indicated, sales were limited by supply and fell off as production declined. The rise in sales in this group toward the end of the year was due solely to price advances.

After the peak in the summer of 1941, an adjustment followed as consumers relaxed their purchasing somewhat. Toward the end of the year, however, buying strengthened again as further civilian production curtailment orders were introduced. The major buying flurry was in apparel as more wool was diverted from civilian channels.

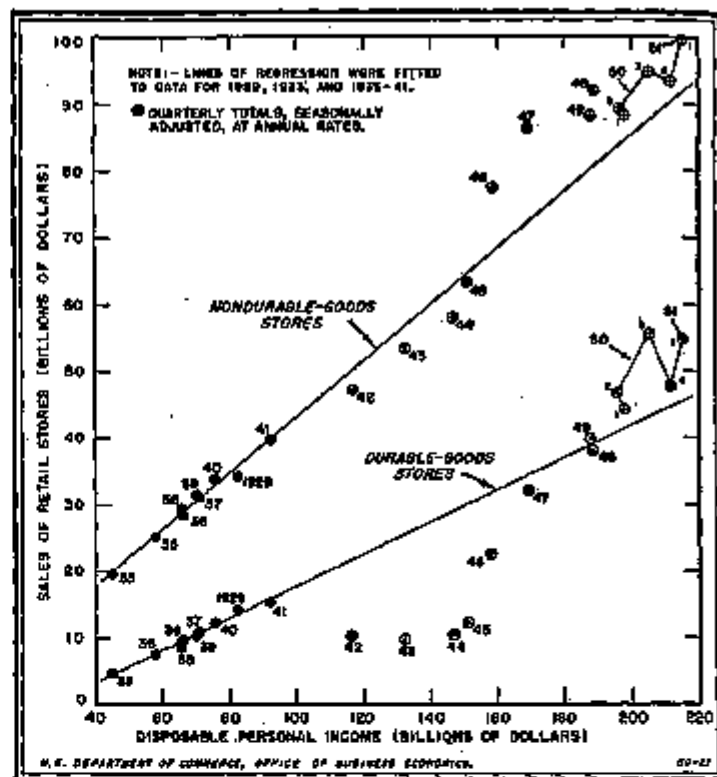
Chart 3.—Sales of Retail Stores as a Percentage of Disposable Personal Income



Percentages are based upon quarterly totals, seasonally adjusted.

Source of data: U. S. Department of Commerce, Office of Business Economics.

Chart 4.—Sales of Retail Stores Related to Disposable Personal Income



Source of data: U. S. Department of Commerce, Office of Business Economics.

Some similarity to present buying patterns is apparent in this year, in spite of important differences in the two periods. The levels of real income and accumulated savings are currently higher than before Pearl Harbor. In addition consumers are close enough to World War II and have a sufficiently keen memory of shortages to react more rapidly to events.

The end of 1941 brought on total war and with it total mobilization and the virtually complete cessation of production of major civilian durables. Thus, developments in retail trade in 1942 cannot provide the basis for appraising the current outlook, except in the event that present efforts to avert the necessity for full-scale mobilization meet with failure.

Regional and Size Differences

The paucity of comparable regional series on retail activity makes it difficult to compare the responses to recent events of trade in the various parts of the country. Some information, however, can be obtained from data on sales of department stores in the Federal Reserve Districts. These stores form an important segment of retail trade and deal in many diversified lines of goods. Moreover, total department store sales are known to be fairly closely correlated with sales of all retail stores. Consequently, the pattern of department store sales for the various regions may serve to give an indication of the regional pattern of retail trade.⁴

As a means of comparing the volume of retail trade in each region with all the others, the ratio of sales of department stores in each region to that of total United States department stores sales is utilized. In table 2 the ratios for the various districts are presented.

It may be noted that some movements in the relative

⁴ Since an increase in economic activity of a locality may tend at first to attract small businesses, and only later bring in larger establishments, the use of department store data may understate the magnitude of recent regional changes.

Table 2.—Department Store Sales—District Sales as Percent of the United States

District	1929	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1950				1951, First quarter
														First quarter	Second quarter	Third quarter	Fourth quarter	
United States.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Boston.....	7.5	6.7	6.5	6.6	6.4	6.0	5.9	5.8	6.7	5.9	5.4	5.0	5.4	5.6	5.5	5.3	5.2	5.4
New York.....	17.0	15.3	15.0	14.4	13.7	12.9	12.9	13.1	13.4	13.4	13.3	13.2	12.7	12.7	12.7	12.7	12.9	12.7
Philadelphia.....	7.7	6.8	6.6	6.7	6.0	6.2	6.2	6.2	6.2	6.3	6.5	6.8	6.6	6.7	6.6	6.5	6.6	6.7
Cleveland.....	11.1	11.0	11.1	11.8	11.3	10.9	10.8	10.7	10.7	10.8	11.1	10.9	11.1	11.8	11.3	11.2	10.7	11.6
Richmond.....	5.3	4.8	4.8	5.1	5.0	5.1	5.4	5.3	5.0	4.8	4.8	4.9	4.9	4.8	5.1	4.9	4.8	4.6
Atlanta.....	3.7	4.7	4.8	4.8	4.8	4.4	5.7	5.8	6.7	5.5	5.6	5.7	5.8	5.9	5.9	6.7	5.7	6.7
Chicago.....	20.0	20.1	20.3	20.2	19.8	19.1	18.8	18.8	18.0	19.2	19.2	18.9	19.2	19.2	18.8	19.1	19.7	19.7
St. Louis.....	4.1	4.1	4.1	4.2	4.1	4.2	4.2	4.3	4.4	4.3	4.4	4.4	4.3	4.2	4.4	4.5	4.3	4.0
Minneapolis.....	3.4	3.5	3.4	3.3	3.0	3.1	3.1	3.2	3.3	3.4	3.4	3.4	3.4	3.3	3.3	3.3	3.5	3.2
Kansas City.....	4.4	4.4	4.2	4.2	4.4	4.8	4.9	4.0	4.0	4.8	4.6	4.8	4.8	4.8	4.7	4.0	4.8	4.9
Dallas.....	3.2	3.7	3.6	3.7	3.7	4.6	4.7	4.7	4.0	4.7	4.7	4.8	4.9	5.1	4.0	4.0	4.7	4.9
San Francisco.....	11.7	12.1	12.4	13.4	14.0	15.6	15.4	15.4	15.1	15.1	14.9	14.9	14.0	14.7	14.8	15.1	15.1	14.9

Source: Board of Governors of the Federal Reserve System and U. S. Department of Commerce, Office of Business Economics.

importance of the districts have occurred which might be attributed to the differential impact of the defense activities of the country. There has been a significant improvement in the Cleveland and Chicago districts, apparently associated with the marked pickup in machinery and metal-working industries in recent months. The west coast figures give evidence of the aircraft program and the activities associated with the military operations in the Pacific area, and would be expected to show a further improvement if shipbuilding activity increases.

By and large, however, the impact of such mobilization as has taken place to the present has been small. This is not surprising in view of the time required for the program to get into full swing. Thus, it may be recalled that regional differentiations became marked only after the outbreak of World War II. Despite the expansions prior to Pearl Harbor in aircraft, metals and shipbuilding, as well as the growth of large army camps which also raised business activity in these areas, it was not until 1942 and 1943 that the West and South advanced appreciably in relative retail position.

Some light on the outlook for retail activity in the different parts of the country may be obtained by examining data on proposed facilities to be constructed in these areas under certificates of necessity permitting 5-year amortization for tax purposes. The following table compares the regional distribution of authorizations as of April 6, 1951, with the distribution of private manufacturing facilities authorized during the period July 1940–May 1944.

Region	Percent distribution of authorizations	
	1940–44	1951
New England.....	8	7
Middle Atlantic.....	28	28
North Central.....	32	34
Southern.....	31	22
Western.....	11	12
Total.....	100	100

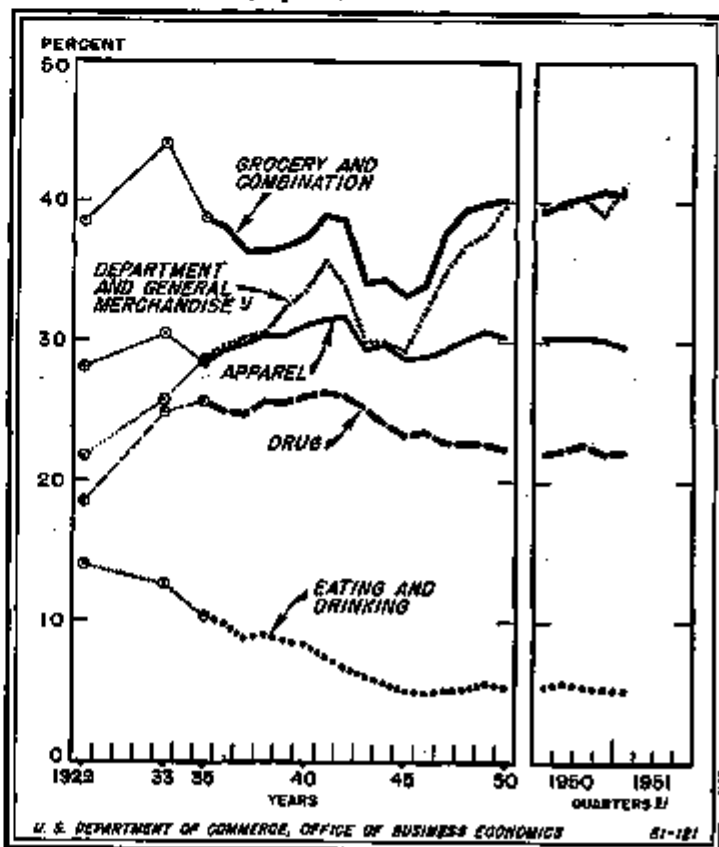
There are many limitations to such a table as an indication of the prospective regional impact of the current mobilization as compared with the last war. The recent figures include only facilities for which rapid amortization has been approved up to April 6, and the geographic pattern of later approvals may be markedly different, as well as the pattern of other types of new installations, whether publicly or privately financed without application for rapid amortization privileges.¹ Moreover, various types of plants have quite different total effects per dollar of cost on the economic activity of a region; for example, the steel plants planned for the East

and South are more likely to attract other business to their areas than are establishments concerned with direct military products. Finally, there is no reflection in the above figures of the inflow of business to a region caused by greater utilization of existing capacity, including reopening of stand-by plants.

Despite these reservations, the above table yields some useful information. In the first place, the regional pattern of planned expansions is on the whole surprisingly similar to that represented by the World War II figures. The major differences are the smaller extent of additions in the North Central States, and the increase for the southern part of the country.

(Continued on p. 24)

Chart 5.—Sales of Chain Stores as a Percentage of All Retail Stores, by Selected Kinds of Business



¹ Data exclude catalog sales of mail-order houses.
² Percentages are based upon quarterly totals, seasonally adjusted.

Source of data: U. S. Department of Commerce, Office of Business Economics.

Receipts from Latin American travelers increased steadily during the postwar period and reached in 1949 and 1950 about two-thirds of American expenditures in these countries. Since 1937 expenditures of Latin Americans in the United States increased about fourfold, far more than those of other areas. Aside from the reasons maintained above for the general rise of travel to the United States, the large increase on the part of Latin Americans reflects undoubtedly the improvement in their economic situation during and after the war. This applies particularly to Cuba and Mexico, which account for 56 percent of all travel expenditures by Latin Americans in the United States. Excluding Mexico, Latin American travelers spent more in the United States than United States travelers in Latin America.

Travel expenditures by Europeans in the United States in 1950 were only 50 percent above 1937, the increase being far less than the rise in the cost of living. Moreover, these expenditures have been declining steadily since 1947 when

exchange restrictions greatly tightened both for travel and for merchandise purchases in the dollar area.

Conditions favor increased foreign travel

With incomes in the United States higher than last year, and with consumer stocks of durable goods increased, the demand for travel may be expected to be higher in the coming season than last year.

If political developments do not discourage transatlantic travel, the somewhat higher ocean shipping capacity should facilitate a further rise in the number going to Europe during the coming season and to increase further European dollar receipts. Travel to nearby areas, which is less affected by political events, can likewise be expected to rise. However, the rise of travel to the latter countries can be expected—at least partly—to be offset by increased travel by their residents to the United States, stimulated by their rising incomes and their very much improved dollar position.

Accelerated Amortization and Private Facilities Expansion

(Continued from p. 15)

to note some of the aspects of the program as it relates to Federal revenues. Some notion of the financial "cost" to the Government may be gathered under certain simplifying assumptions as to the continued usefulness of the facilities and the course of Federal tax rates.

If, for example, it is assumed that the facilities will continue to have normal economic value after the emergency, the following calculations indicate the differential tax receipts which would ensue under given emergency and postemergency tax rate structures. The \$3.5 billion amortizable portion of the facilities expansion program to date is taken as a starting point. This figure tends to overstate the revenue reduction to the extent that some loss of economic usefulness will undoubtedly be involved after the termination of the emergency. On the other hand, such a figure understates the tax loss insofar as further amortization approvals will be granted. A normal useful life of 20 years is assumed by way of illustration.

Bearing in mind these qualifications, it will be noted that the revenue loss to the Government (or benefit to the owner) is greater the higher the effective tax rate applicable to income earned in the emergency, and the lower the postwar tax rates as compared with those currently in effect or in prospect. In the 77 percent, or highest, marginal tax bracket applicable under the present excess profits tax law, the revenue loss is calculated to be \$1.0 billion should the emergency last the full 5 years and the post-emergency corporate tax rates revert to the pre-Korean terms. With the 62 percent over-all effective tax limit now in effect, the comparable calculated loss would be somewhat less, about \$0.5 billion.

In the event that there is no change in tax rates over the life of these assets, there would be no direct revenue loss to the Government, but there would be a substantial interest cost depending on the average rate of interest paid by the Government and the average length of time over which tax payments are postponed through amortization.

Several important qualifications should be emphasized in evaluating the revenue "cost" aspect of the amortization program. In the first place, in the absence of this program, alternative methods of financing some of the required facilities, including possibly direct Federal outlays, would undoubtedly be necessary.

Moreover, revenue costs to the Government of such a program can hardly be evaluated without information on its effects on pricing and renegotiation policies. It may be noted the current provisions carry forward the World War II policies of allowing the amortization deduction in the renegotiation of emergency profits. To the extent that unusually rapid loss of economic value is incurred, such a practice is, of course, necessary in order to insure recovery of cost of facilities. However, to the extent that post-defense values are relatively well maintained, this procedure tends to enhance the advantages to businesses in making use of the amortization program.

In general it must be recognized that a full evaluation of the rapid amortization program can only be made in the light of the general environment in which the plan operates rather than by considering separate aspects of the program in isolation.

Recent Trends in Retail Trade

(Continued from p. 19)

To some extent the currently less favorable showing of the North Central States reflects the greater emphasis at present on the increased utilization of existing capacity as well as the reopening of standby plants and the conversion of establishments previously engaged in civilian production.

The fragmentary data available on differential impacts by store size indicate that here too the mobilization program is making itself felt only slowly. The indications are that the smaller stores benefited more than the larger from the increase in retail sales in 1950, and this is the usual situation in a period of rising economic activity. However, the evidence seems to show that the advantage of the small establishments was just as great in the first half of the year

as in the period following Korea.

Some further light is cast by a comparison of chain and independent store sales (chart 5 on page 19). In most lines of trade, the relative importance of these two groups of stores has altered very little since the first half of 1950. This is reminiscent of the period before our entry into World War II, where significant inroads were made by independents on the chains' relative standing only after Pearl Harbor.

Some significance may attach to the small increase in the position of grocery chains, which may be associated with the rapid rise in food prices. Under food rationing during the war, with price considerations secondary, grocery as well as other types of chains lost ground to independents.